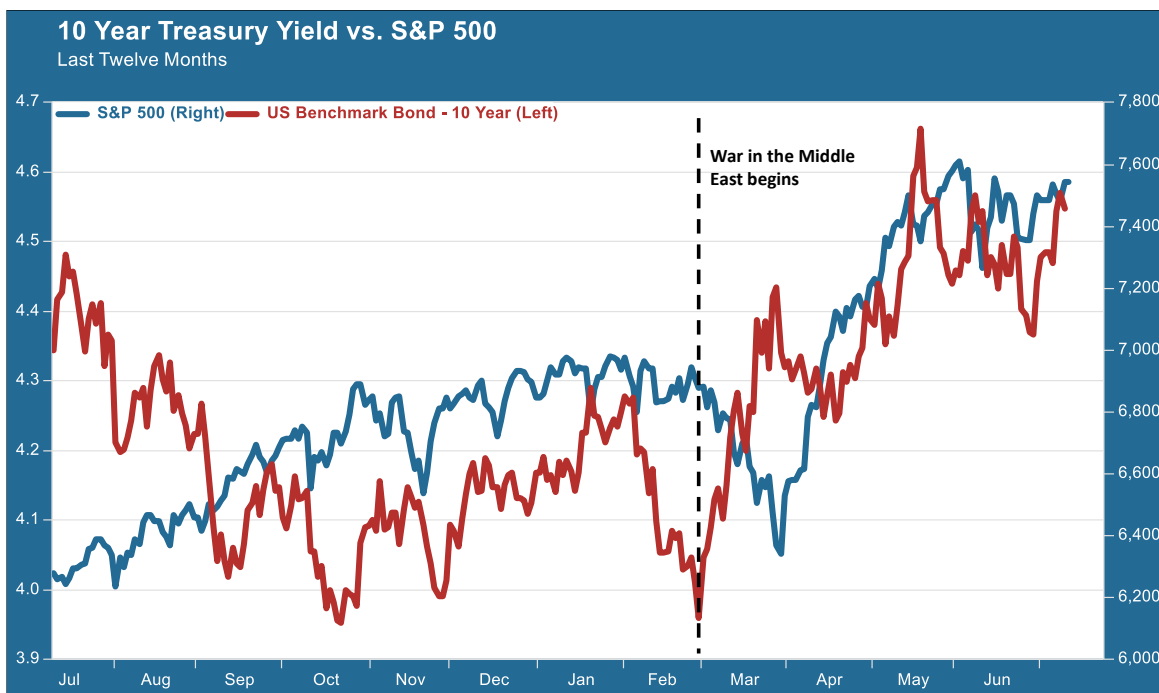


## Weekly Market Flash

### Sobriety, Thy Name is Bond Market

July 10, 2026

Pay more attention to the bond market than the stock market. That is advice we have been giving our clients for years now. In the world of anthropomorphic Wall Street imagery the stock market – the fabled Mr. Market of Warren Buffett-speak – is an emotional and unbalanced creature fond of tipping a few back while making rash here-and-now decisions based on his gut. The bond market, by contrast, is an austere and sober gent with only one concern: getting paid in full and on time. The stock market is Pollyanna, full of hopes and dreams and always ready to buy into a too good to be true story. The bond market is Cassandra, the doomsayer of myth certain that dark clouds lie ahead. Consider how each of these investment categories have behaved since the beginning of the war in the Middle East.



Source: MVM Research, FactSet

### Same Magnitude, Different Meaning

On February 27, a day before US and Israeli forces launched an attack on Iran, the benchmark 10-year Treasury yield was trading around 3.9 percent. On May 19 the 10-year hit 4.7 percent, its peak for the year thus far, representing a 20 percent gain (remember that when bond yields go up, bond prices go down). Today the 10-year is fetching around 4.6 percent. Bonds have been in Cassandra mode throughout the period since that initial outbreak of hostilities.

Stocks initially fell as the closure of the Strait of Hormuz threatened to upend the global energy market and disrupt all manner of industry supply chains. But after bottoming out on March 30, around nine percent down from its previous peak, the market went on a tear. From March 30 to June 2 the S&P 500 gained 20 percent. Same magnitude of gain as the 10-year Treasury yield, but with an obviously different

message. Although intraday trading has been volatile on many days recently, the stock market remains close to that June 2 year-to-date high.

### Geopolitics, Schmeopolitics

The stock market is famous for its ability to move on past concerns of a geopolitical nature. Yes, the war's potential to engender higher inflation remains a concern, but investors have largely chosen to focus instead on resilience in corporate earnings. S&P 500 earnings per share for the first quarter, which came out over the April-May time frame, rose by a very robust 28 percent. Information technology was, unsurprisingly, the star performer with a 55 percent EPS gain from the prior year, but consumer discretionary, financials, industrials, materials and communications services all rose by healthy double digits as well. Forward guidance issued by many of these companies suggested that inflation, while higher than desirable, was not yet setting up a doom scenario.

But is that going to change in the coming weeks, when the second quarter numbers start to come out? Analysts have been successively raising their estimates for Q2 earnings, with the current forecast for EPS growth of 24 percent twice as high as the analysts had been predicting at the beginning of the year. This in itself is unusual; typically, analysts start to lower their estimates as the reporting season approaches, which then makes it easier for the companies reporting to produce upside surprises (a somewhat cynical game, yes, but we all live with it). The performance bar is high, particularly for the highest-flying sectors of semiconductors and other AI infrastructure categories.

Meanwhile, Cassandra over in the bond market is not likely to make things easier. Expectations are already baked in for at least one interest rate hike by the Fed before the end of the year. Other central banks, including the European Central Bank, Bank of Japan and Reserve Bank of Australia have already begun raising rates. Inflationary concerns are far from being off the table. With yet another flare-up in the Middle East this week, the stock market may find it harder and harder to cover its ears and scream la-la-la when geopolitical concerns lead the morning headlines. And there have been some recent signs of flagging consumer resilience, such as a dour report on expected back to school sales issued by Deloitte earlier this week, that could complicate some of those optimistic corporate earnings forecasts. It could be a bumpy ride as we get closer to Labor Day. We won't be taking our eyes away from the bond market.

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